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SUBJECT: PARAGUAY: 2008 COUNTRY REPORT ON TERRORISM
REF: SECSTATE 120019

Tri-Border Area (Argentina, Brazil, and Paraguay)

¶1. The Governments of the Tri-Border Area (TBA), Argentina, Brazil, and Paraguay, have long been concerned with arms and drugs smuggling, document fraud, money laundering, and the manufacture and movement of contraband goods through this region. In the early 1990s, they established a mechanism to address these illicit activities. In 2002, at their invitation, the United States joined them in what became the "3 1 Group on Tri-Border Area Security" to improve the capabilities of the three to address cross-border crime and thwart money laundering and potential terrorist financing activities. The United States remained concerned that Hizballah and HAMAS sympathizers were raising funds in the TBA by participating in illicit activities and soliciting donations from sympathizers within the sizable Muslim communities in the region. There was no corroborated information, however, that these or other Islamic extremist groups had an operational presence on the Paraguayan side of the TBA.

Paraguay

¶2. In a historic transition, Paraguay's newly-elected government of President Fernando Lugo assumed office August 15. Paraguay's efforts continue to be hampered by a weak, politicized judicial system, a police force widely viewed as corrupt and ineffective, and a lack of strong anti-money laundering and terrorist-financing legislation. On June 25, Paraguay's Congress took the final measure to pass improved anti-money laundering legislation as part of a major overhaul of the penal code; this statute should drastically improve Paraguay's ability to effectively obstruct and prosecute money laundering once the law goes into full effect in July 2009. The Congress, Legal Reform Commission also drafted a criminal procedural code reform bill that would facilitate prosecution of money laundering and terrorism and modernize Paraguay's criminal justice system. The bill, however, has been mothballed in the Commission for more than one year.

Terrorist-financing legislation will be critical to keep Paraguay current with its international obligations. Efforts to include the statutes in the new penal code failed. Paraguay's Secretariat for the Prevention of Money Laundering (SEPRELAD) is working on a revised draft of the terrorist-financing bill to present to Congress in early 2009. Using its experience in the development of a similar law, Brazil is providing technical assistance to SEPRELAD. The Egmont Group notified Paraguay about the need to comply with its international commitments regarding terrorist-financing legislation. If Paraguay does not show reasonable progress in enacting such a law it could face

expulsion in 2009.

¶3. Paraguay did not exercise effective immigration or customs controls at its porous borders. Efforts to address illicit activity occurring in the Tri-Border Area were uneven due to a lack of resources and, more principally, corruption within Customs, the police, and the judicial sector. The United States continues to work closely with SEPRELAD, which made several in-roads into undermining money laundering in Paraguay, including December raids on illegal exchange houses. Though Paraguay long had been in arrears with the Financial Action Task Force of Latin America (GAFISUD), it fully paid its outstanding dues in mid-2008.

¶4. A Paraguayan court dismissed the tax evasion and money laundering charges against Kassem Hijazi, a suspected Hizballah money launderer, in October 2008 after significant indications of judicial and political interference with the prosecution of what had been the largest money-laundering case in Paraguay's history. Suspected Hizballah fundraiser Hatem Ahmad Barakat was convicted and sentenced on tax evasion charges in April 2006, but he continues to appeal his three-year sentence while on bail.

¶5. The United States assisted Paraguay with training for judges, prosecutors, and police in terrorist financing; counterterrorism awareness; weapons of mass destruction; law enforcement capacity building; and investigating, preventing, and prosecuting individuals involved in money laundering. Under the Millennium Challenge Corporation's Threshold Program, the U.S. assisted Paraguay with training for judges, prosecutors, and police in investigation techniques that are critical to money laundering and terrorist finance cases. Paraguay submitted a proposal for a second phase of the Threshold Program in November, which will focus in part on police corruption.

¶6. Embassy Asuncion CT contacts are Joan Shaker (jpshaker@state.gov) and Luis Hernandez (hernandezlj@state.gov)

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